

VZCZCXRO4212

RR RUEHAO RUEHCD RUEHGA RUEHGD RUEHHA RUEHHO RUEHMC RUEHMT RUEHNG
RUEHNL RUEHQU RUEHRD RUEHRG RUEHRS RUEHTM RUEHVC
DE RUEHUB #0308/01 1471833
ZNY CCCCC ZZH
R 271833Z MAY 09
FM USINT HAVANA
TO RUEHC/SECSTATE WASHDC 4422
INFO RUEHWH/WESTERN HEMISPHERIC AFFAIRS DIPL POSTS
RUCOWCV/CCGDSEVEN MIAMI FL
RUEAIIA/CIA WASHINGTON DC
RHEHAAA/NATIONAL SECURITY COUNCIL WASHINGTON DC
RUCOGCA/COMNAVBASE GUANTANAMO BAY CU
RHMFISS/HQ USSOUTHCOM MIAMI FL
RHMFISS/JOINT STAFF WASHINGTON DC
RHEFDIA/DIA WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUCPDOG/DEPT OF COMMERCE WASHINGTON DC

C O N F I D E N T I A L SECTION 01 OF 02 HAVANA 000308

SIPDIS

DEPT FOR WHA/CCA

E.O. 12958: DECL: 05/26/2019

TAGS: [ECON](#) [PREL](#) [PGOV](#) [EFIN](#) [CU](#)

SUBJECT: CUBAN GDP PROJECTIONS FALL; NO STIMULUS PACKAGE IN
SIGHT

REF: HAVANA 33

Classified By: COM Jonathan Farrar for reasons 1.4 (b) and (d)

SUMMARY

1. (C) The Government of Cuba (GOC) has lowered 2009 GDP growth projections from 6 percent to no greater than 2.5 percent. Removing the GOC's historic optimism and unusual accounting methods, it is likely Cuba will experience zero or negative growth this year. A fall in the demand for and price of exports is partially to blame. GOC officials also finally admit that Cuba is not immune to the international decline in tourism. Not surprisingly, the GOC has offered the Cuban people nothing more than a promise of tougher times ahead without any reason to hope, other than the fact that they have lived through worse times before. Rather than offering a domestic stimulus, the GOC announced a new austerity program to start in June. Cuban households should start to feel the pinch from Cuba's macroeconomic problems this summer. We will examine in septel how these reports, serious liquidity issues, and looming financial problems in Venezuela factor into speculation that Cuba may be headed towards another special period. End Summary

GDP GROWTH PROJECTIONS FALLING

2. (SBU) In December, former Economy and Planning Minister Jose Luis Rodriguez estimated 2009 GDP growth of 6 percent. At the same time he reported 2008 GDP growth of 4.3 percent, barely half of the government's original prediction of 8 percent. In 2007, the GOC reported GDP growth of 7.3 percent, again much less than its 10 percent prediction. With this history of overestimating GDP growth in mind, it was no surprise when new Economy and Planning Minister Marino Alberto MURILLO Jorge reported in the official press on May 24 that 2009 GDP growth is now expected to reach "2.4 or 2.5 percent" due "the instability in the world economy". One week earlier, the University of Havana's Center for the Study of the Cuban Economy (CEEC) projected GDP growth between negative 0.5 percent and positive 2.5 percent. Historically, CEEC's projections have been closer, if not still a bit higher, than the final GDP growth figures reported in previous years by the Office of National Statistics.

13. (SBU) GOC explanations for lower GDP growth are similar to those offered at the end of 2008 (hurricanes and the U.S. embargo), with an increasing emphasis on the role of the world financial crisis. According to Murillo, the global contraction has reduced Cuba's potential earnings from tourism and exports. Although the GOC reported a slight increase in tourist arrivals in the first quarter of 2009 (the height of tourism season), it expects tourism revenue for the entire year to fall by some USD 300 million. The GOC has reported both a reduced demand for key Cuban exports (tobacco, rum, and nickel) and lower international prices. Prices for Nickel, which represents Cuba's largest source of export earnings by far, have suffered most dramatically. According to Canadian firm Sherritt International's first quarterly report, the average price of nickel so far in 2009 is 43 percent lower than the average price for all of 2008, which was already down 44 percent from the historic 2007 average. Mines operated by Sherritt produce more than half of Cuba's nickel. Between tourism and nickel alone, the GOC could experience more than USD 1 billion in lost revenue compared to 2008, a huge hit in a country starving for foreign currency (septel).

14. (SBU) In addition to the effect of the real economy on GDP growth in Cuba, figures are also influenced by statistical manipulation. The GOC calculates GDP using a unique "social" method that does not conform with internationally accepted standards (reftel). From 2003 to 2007, the GOC's unorthodox methodology resulted in reported GDP growth rates of an average of 2.36 percent higher than if Cuba had used internationally accepted standards. Taking

HAVANA 00000308 002 OF 002

into account the GOC's traditionally optimistic predictions and the extra bump provided by using the "social" method, Cuba will be hard pressed to show positive GDP growth in 2009. In fact, it is likely Cuba experienced negative growth during the last quarter of 2008, in large part due to the effect of three major hurricanes on agricultural production and imports.

NO GOVERNMENT STIMULUS IN SIGHT

15. (SBU) Unlike most of the rest of the world, Cuba has no plans to introduce a government stimulus package to spur domestic production. Instead, GOC officials predictably urge Cubans to work harder, save more (primarily energy), waste less, and stop stealing from the office. The Communist Party newspaper Granma repeated Fidel Castro's traditional insistence that "the most immediate revenues in hard currency that our country can get are through savings." The GOC appears to be preparing Cubans for a tough year ahead with official press reports of potential blackouts, reduced imports, and limited transportation services. Granma has promised that expenditures will be cut and Economy Minister Murillo emphasized that there will be restrictions on consumption.

16. (SBU) On May 26, an unpublished government directive circulating among government offices and state companies announced a new austerity program aimed at reducing energy use starting in June. Details have not been released, but the program will likely mandate disconnecting air conditioners, turning off lights, cutting subsidies for government vehicles, and shortening working hours. These reports have sparked the international press and everyday Cubans to wonder if Cuba is heading toward another Special Period (septel).

COMMENTS

¶7. (C) A tightly controlled economy and U.S. sanctions had protected Cuba from the initial phase of the world economic slowdown, in particular regarding the banking sector. However, a heavy dependence on imports for every sector of society (domestic consumption/subsistence, tourism inputs, infrastructure investment, and energy) and a serious decline in foreign currency income from tourism and commodity exports have finally caught up with the country's finances. Up until now, Cubans have been mildly affected, in the same way that they did not experience much benefit from years of high GDP growth rates. However, everyday Cubans should expect recent GOC warnings and the announced energy austerity program to extend the reach of Cuba's macroeconomic problems to their households just in time for the start of hurricane season on June 1.
FARRAR